

Time for Tariff Truths

A bit of history

Tariffs have been used many times throughout history for generally seeking parity or advantage. Indeed, tariffs have played a significant role in U.S. economic policy over the past century, evolving in both purpose and impact.

Early in the 20th Century, tariffs were a major source of federal revenue, accounting for up to 90% of government income before the introduction of income tax in 1932. They were used to protect domestic industries and generate revenue. Remember, lest you miss the fact, buyers of items pay a higher price for imported goods (essentially a tax). Occasionally, if the tariffs are not overwhelming, the producer lowers prices to compensate for the purchase by the buyer. During the Great Depression, the Smoot-Hawley Tariff Act of 1930 raised tariffs to record levels, aiming to protect American jobs and industries. However, it also contributed to global trade tensions and worsened the economic downturn.

Post-World War II, the U.S. shifted towards trade liberalization, reducing tariffs through agreements like the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO). By the mid-20th century, US tariffs accounted for less than 5% of federal revenue. Again, consider who paid that revenue! Citizen buyers like you and me.

Tariffs have gradually transitioned from being a primary revenue source to a tool for trade policy and economic strategy. In recent decades, tariffs have been used strategically by all presidents, including the Trump administration. Both then and now, Trump imposed tariffs on Chinese, Canadian, Mexican, and other countries' imports, to address trade imbalances and protect domestic industries. However, certain agreements have been in place to soften the blows. Now, of course, apparently the idea is to apply-tariffs to the whole world all at once.

Since the lessons from the pandemic about trade, it would be an understatement to say things have changed. Some aspects have been beneficial, such as the development of vaccines to help mitigate the impact of influenza and the reduction of inflation caused by supply and demand imbalances during the pandemic (although not yet fully resolved, it could have been worse), as well as the realization that

national security needed greater consideration in the trade question. Indeed, we learned quickly that many products should be produced in-country and supply chains require more scrutiny. Likely, there are other things you could offer on the good side of things.

On the not-so-good side, we witnessed events such as the invasion of Ukraine and the national policies revolving around the Federal Reserve trying to slow inflation further by reducing the money in circulation (letting the bonds they hold mature and not buying new ones to cool the economy). All the while, Congress/Senate quibbled over government spending, taxes, and other actions, leaving presidents to utilize the Executive Order, often without the required Legislative blessings. Politics have grown fiercer and more combative at many levels.

So, digging into the research on one topic high on everyone's radar...tariffs, tighten your belt, then read this whole thing. Irrespective of your political persuasion, here are the facts to consider for at least one of our country's trade relationships. Believe me when I say again, this topic is changing by the minute.

How do tariffs influence international trade relationships?

Tariffs significantly shape international trade relationships, often acting as both a tool and a barrier in global commerce. Here's how they influence these dynamics:

Trade Tensions: High tariffs can lead to strained relationships between countries. For example, if one country imposes tariffs on imports, the affected trading partners might retaliate with their tariffs, escalating into trade wars.

Negotiation Leverage: Tariffs are sometimes used as a bargaining chip in trade negotiations. Countries may impose tariffs to push for better terms in trade agreements or to address perceived imbalances.

Economic Shifts: We have learned tariffs can alter trade flows by making imported goods more expensive. This can encourage domestic production but may also lead to disruptions in global supply chains and higher prices for consumers for goods like oil, fruits and vegetables, and more.

Strategic Alliances: Countries with shared economic interests may form alliances or agreements to reduce tariffs among themselves, fostering closer trade relationships. Examples include free trade agreements like the North American Free Trade Agreement (NAFTA, now USMCA which we'll talk about later) or the European Union.

Trust: Of course, with frequent or unpredictable changes in tariff policies, trust slips through our fingers, eroding between our trading partners, surely making long-term economic plans difficult or impossible. This can become catastrophic when politics get in the middle.

Through the era of “globalization,” companies were putting plants into the countries where the product was being sold. This was efficient, and tariffs were not a big deal. Then countries started using a Value-Added-Tax (VAT) which places a small tax on each developmental step of a product on the way to the market. Both Globalization and VAT have had profound impacts on international trade, shaping its dynamics in various ways. Both globalization and VAT have reshaped trade, balancing opportunities with challenges.

Let's look at globalization and VAT impacts on trade:

Expanded Market Access: Globalization has opened markets, allowing businesses to reach customers worldwide. This has significantly increased trade volumes.

- **Trade Liberalization:** It has led to reduced trade barriers, such as tariffs and quotas, fostering freer trade and economic integration.
- **Specialization and Efficiency:** Countries now focus on producing goods where they have a comparative advantage, enhancing productivity and offering consumers a wider variety of products.
- **Challenges:** While globalization has boosted trade, it has also brought challenges like job displacement, unequal distribution of benefits, and heightened competition.
- **Neutrality in Trade:** VAT is designed to be trade-neutral, as it is levied on imports but rebated on exports. This ensures that VAT does not inherently distort trade flows.
- **Global Adoption:** Over 80% of countries have adopted VAT, replacing tariffs and other taxes. This shift has streamlined taxation but has not significantly altered trade dynamics.

- **Economic Growth:** VAT supports economic growth by promoting consumption-based taxation, which is less biased against saving compared to income taxation.

The political lever

The national trade deficit is driven by a strong U.S. consumer demand for imported goods, coupled with a relatively strong dollar, all of which make U.S. exports less competitive. Key sectors contributing to the deficit include technology, consumer goods, and automotive imports. The U.S. trade deficit for 2024 was a record \$1.2 trillion, marking the fourth consecutive year that it exceeded \$1 trillion. This reflects a significant imbalance, with imports growing faster than exports. The deficit was particularly pronounced in trade with countries like China (\$270.4 billion), Mexico (\$157.2 billion), and Vietnam (\$113.1 billion). Despite efforts like placing tariffs on Chinese goods, the deficit has continued to grow.

Other administrations have attempted to address the growing imbalance. Take the last two administrations' treatment with China. Under the Biden administration ending in January of 2025, US tariffs on Chinese goods stayed stable, with increases in September 2024 and January 2025, raising the average tariff from 19.3% to 20.8%. China's tariffs on US goods were also stable but increased in early 2025, lifting the average tariff on US exports to 22.6%.

The Trump administration imposed tariffs on solar panels and washing machines, ranging from 30% to 50% in January of his first term, January 2018. In March 2018, tariffs were imposed on steel (25%) and aluminum (10%) from most countries, including China. By June 2018, the tariffs extended to the European Union, Canada, and Mexico. Then July 2018 saw the first round of tariffs specifically targeting Chinese goods, with a 25% tariff on \$34 billion worth of imports. China responded with tariffs on \$34 billion worth of U.S. goods. The game was on.

Further rounds of tariffs followed with the U.S. imposing additional tariffs on \$200 billion worth of Chinese goods in September 2018. By September 2018, China had expanded its tariffs to cover \$60 billion worth of U.S. goods, with rates ranging from 5% to 25% and in mid-2019, China increased tariffs on \$75 billion worth of targeted USA items such as crude oil, natural gas, and various consumer goods with rates up to 25%. An agreement was reached in February 2020, the U.S.-China Phase One trade

agreement was implemented, establishing new tariffs on imports from China. However, by this time U.S. tariffs on Chinese exports averaged 19.3%, covering 66.6% of U.S. imports from China. Now, in 2025, it appears that Trump is planning to continue his tariff regime for his second term. The former agreement held that China would provide protection of intellectual property rights, commit to increase USA agricultural products, and buy \$200 billion U.S. products over a two-year period, among other conditions. The agreement also included mechanisms for enforcement and dispute resolution to ensure compliance.

Now, in the new term it appears that there is an expanded continuation of history between Trump and, well, the world. Rather than identify each country's current tariffs on USA goods, the numbers the Trump Administration has used to set the new tariffs uses a formula that has no representation to how other countries' tariffs are traditionally calculated. These administration "experts" used the following: One-half of trading deficit \$ divided by \$ amount of the country's imports into the USA. Simple? Yup. Correct? Nope. To explain this, we will now look at what is being characterized by the administration.

The "tariff calculation" the administration rolled out on April 2, 2025 had China's portion 22.5%, or about a quarter, of our deficit. The administration chose to use their own equation, which was the value of imports by country divided by the total annual import deficit. For example, US 2024 \$1.2 trillion/China imports 2024 \$270.4 billion, result 22.5%. Before the April 2, 2025 announcement, the United States had a 20% tariff on Chinese imports, a rate that was part of the ongoing trade measures implemented earlier in the year.

As part of his "Liberation Day" initiative, which aimed to address trade imbalances across the board and promote domestic manufacturing, Trump announced on April 2, 2025, that the U.S. treatment of Chinese imports for instance would be a 10% universal tariff on all imports plus reciprocal tariffs targeting specific countries that included China. For China, the tariff rate was set at 34%, then additional country-specific tariffs on Chinese goods raised it to 54%. This means that the total tariff on Chinese goods entering the U.S. could now reach up to 54%, depending on the specific product category. Other countries were treated similarly.

As of this writing, you could "pause" the outcome, as things are literally changing by the day. The uncertainty is, of course, manifest.

Where we stand with our North American neighbors

In discussions on international tariffs, some folks misunderstand the facts when it comes to our closest borders. An example is the United States-Mexico-Canada Agreement (USMCA), which includes several key provisions designed to modernize and enhance trade among the three countries. Canada and Mexico are still under this agreement and the administration has acknowledged that it will be honored, not tariff taxed. Here are some of the highlights:

- **Automotive Industry**
 - **Regional Content Requirements:** Automobiles must have 75% of their parts made in North America (up from 62.5% under NAFTA) to qualify for tariff-free trade.
 - **Labor Standards:** By 2023, 40-45% of vehicle parts must be made by workers earning at least \$16 USD per hour.
- **Agriculture**
 - **Market Access:** U.S. farmers gained expanded access to Canada's dairy, poultry, and egg markets. For example, Canada increased quotas for U.S. dairy imports.
 - **Biotechnology:** Enhancements were made to encourage agricultural innovation and the use of new technologies.
- **Digital Trade**
 - Protections for cross-border data flows and a prohibition on customs duties for digital products like software, music, and e-books.
- **Labor and Environmental Standards**
 - Stronger labor protections, including measures to address worker exploitation and increase rights for collective bargaining.
 - Commitments to tackle environmental challenges, such as illegal fishing and marine pollution.
- **Intellectual Property (IP)**
 - Extends copyright terms to 70 years after the author's death.
 - Strengthens IP protections in areas like patents and trademarks.

- **Sunset Clause:** The USMCA includes a 16-year sunset clause, meaning it will expire unless all three countries agree to extend it. It also requires a review every six years.

In the final analysis

America has core values that have been the source of our rise to be the most incredible democracy—values of heart, a sense of order, passion, persistence, consideration, and understanding. These have played a huge role in peace and prosperity in our country as well as in many places around the world. Sure, we have issues; that’s life. But we also have the determination, stronger than any one leader’s direction, to stay free. The point of the administration has some validity. We have paid too much for the things we buy from other countries. Part of that is on us, too, and our inability to manufacture and/or supply goods competitively over past decades. The “we can get it made cheaper in China” mantra was common, and we let it slip through without recognizing the unintended consequences. The issues that have erupted in markets globally since Trump’s Liberation Day is evidence, however, that the administration is using a sledgehammer to drive a nail. This type of bullying has not and will not achieve the desired outcome. Did we not see in Trump’s first term the same sort of antics? Now it is up to *we the people* to bring ourselves back to fundamentals.

Let’s begin to get the facts straight, remembering that *information* is not necessarily *truth*. Things are moving so fast; stop and spend a little time evaluating the uncertainties. Belief is hard to change, but it is even harder if the belief is represented in obvious, provable lies. Truth is worth pursuing. It is okay to have your own opinions, but others do, too. Sitting over coffee or a beer just discussing stuff often means we all learn something, and wisdom comes from learning. A lot of worthwhile outcomes result from our being Americans.



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